

November 14, 2001

H.R. 3090 – “The Economic Recovery and Assistance for American Workers Act of 2001”

Reported by the Senate Committee on Finance with an amendment in the nature of a substitute and an amendment to the title on November 9, 2001, by a party-line vote of 11-10 (Senator Jeffords voted aye). No committee report.

NOTEWORTHY

- The Senate on Tuesday took up H.R. 3090 for debate only and will begin full consideration today. This Notice addresses the Finance Committee reported substitute to H.R. 3090, sponsored by Finance Chairman Baucus and reported on a party-line vote.
- The Baucus substitute includes spending and tax items totaling \$67 billion in FY 2002, composed of nearly \$21 billion in temporary business-related tax relief and \$46 billion in new spending proposals, including:
 - Federal payment of individual health insurance premiums under COBRA;
 - Extended unemployment benefits for displaced workers; and
 - Expanded federal support for Amtrak, numerous agricultural products, and other unrelated provisions.
- Treasury Secretary O’Neill in prepared remarks last week said, “The Baucus proposal is heavy on new spending that will have little, if any, stimulative effect on the economy. Moreover, some of its provisions would have an adverse effect on job creation.”
- In an editorial yesterday, the *Washington Post* made the following observation: “The stimulus bill that passed through committee last week includes money for citrus growers and buffalo farmers and producing electricity from chicken waste. It includes a tax break on aviation fuel for crop-dusters. A wage credit designed to encourage firms to hire welfare recipients has been extended to businesses in lower Manhattan that hire anyone.”
- It is possible the Baucus substitute, when offered, will include some version of Senator Byrd’s \$15 billion infrastructure spending proposal (see Background, p. 4). Majority Leader Daschle has

indicated he would like to add this new spending to the stimulus bill. The President has repeatedly stated Congress should refrain from spending above the previously agreed to levels.

- Senate Republicans, led by Senator Grassley, have proposed their own alternative stimulus package, which conforms to the principles outlined by the President. The Republican alternative includes \$75 billion in tax relief for FY 2002, including expanded business depreciation, accelerated individual rate cuts, and repeal of the corporate alternative minimum tax (AMT).
- The Center for Data Analysis at the Heritage Foundation estimates the approach supported by the President would produce *seven* times as many jobs as would the Baucus plan over ten years.

BACKGROUND

Following the terrorist attacks of September 11, Congress' attention has increasingly focused on the stalled economy and the need for a stimulus package to encourage renewed investment and job creation. Prior to the attacks, many economists were already predicting negative economic growth. Through August, more than one million Americans had lost their jobs relative to the previous year. Many public officials spent the August recess calling on Congress to consider legislation to address the slowing economy.

The attacks of September 11th exacerbated both the country's economic ill health and concerns that Congress needed to take action to mitigate the slowing economy. On October 5, the President publicly urged Congress to send him an economic stimulus package, including an acceleration of marginal tax rates for individuals, subsidy checks for low- and moderate-income taxpayers, enhanced expensing of capital expenditures, and repeal of the corporate alternative minimum tax.

House-Passed Bill

On October 12, the House Ways and Means Committee marked up and reported out a \$100 billion stimulus bill, H.R. 3090, that included many of the provisions requested by the President. The bill passed the House on October 24, by a 216-214 vote, after a Democrat alternative with smaller tax cuts and more spending increases failed by a large margin. As passed, the House bill included:

- A three-year provision to allow expensing for 30 percent of the cost of equipment;
- A repeal of the corporate alternative minimum tax along with a refund of accumulated credits;
- A 15-year write-off period for leasehold improvements;
- A supplemental rebate for those without enough tax liability to use the prior rebate;

- An acceleration of the 28-percent rate cut (to 25 percent) enacted last summer, a temporary increase in the individual alternative minimum tax exemption; and
- A reduction in the capital gains rate from 20 percent and 10 percent to 18 percent and 8 percent for all property held for a year.

President Urges Senate Action

Following indications that the Senate may be slow to adopt its own economic stimulus package, on October 31st the President again called on Congress – specifically the Senate – to adopt an economic package that conformed to his outline, including:

Timing: “Congress needs to pass a stimulus package and get it to my desk before the end of November.”

Tax Cuts: “And then we’ve got to make sure our tax relief encourages investment, encourages the flow of capital, and therefore, . . . we need to reform the alternative minimum tax on corporate America, so that corporate America doesn’t have to get penalized during times of declining earnings . . . as well as encourage investment in new plants and equipment.”

Worker Assistance: “And we need to spend money on helping workers who lost their jobs as a result of the attack of September 11. I believe we need to extend and expand the unemployment benefits to those workers. And I know we need to expand what they call national emergency grants, which will give governors the latitude to take federal monies and apply that money to special workers’ needs, such as health care benefits, to make sure that any laid-off workers can be able to pay the premiums of their health care plans.”

Energy: “Our nation needs an energy plan, an energy plan that encourages conservation and encourages exploration. And I believe we can do both in a responsible way. And we need to modernize the infrastructure that develops energy from point A to point B, from plant to consumer. . . . It is in our national interest that we have an energy plan, one designed to make us less reliant upon foreign sources of energy.”

Spending vs. Tax Cuts: “And we also ought to make sure that we offset any spending with tax relief. The way to have a balanced stimulus package is to recognize we’ve spent a considerable amount of money up to date and we need to spend some more for our workers; we ought to offset that with tax relief.”

Appropriations: “And so I look forward to working with the appropriators to be responsible about how we spend taxpayers’ money, particularly as we run up to what I hope is a recess around the Thanksgiving period.”

Following the President’s remarks, both the Democrats and Republicans introduced their own versions of an economic stimulus package. In many ways, the packages are mirror images of one

another. Both would have approximately \$80 billion impact on the budget this year, but where the Democrat bill focused on spending and new entitlement programs, the Republican plan followed the President's outline of business and investment tax incentives supplemented by worker assistance spending items.

Finance Committee Action

On November 8th, the Senate Finance Committee adopted the Democrat plan on a party-line vote of 11-10 (Senator Jeffords voted with the Democrats). During the markup, only one amendment, by Senator Torricelli, was offered to insert "Victims of Terrorism Tax Relief" provisions into the bill. Republicans declined to offer amendments to what they considered to be a partisan and political document rather than a true effort to help the economy.

Byrd Spending Plan

Senator Daschle has indicated that he would like to add a spending proposal offered by Senator Byrd to the Finance Committee substitute. The Byrd plan would spread approximately \$15 billion in new spending around to a laundry list of projects, including:

- Bioterrorism and food safety;
- Federal, state, and local law enforcement and emergency response;
- Transportation security; and
- Mail, federal facilities, and nuclear security.

The \$15 billion would be in addition to the \$40 billion in emergency funding, \$15 billion in airline bailout funding, and other new spending authorized and appropriated following the September 11th attacks.

The White House Position on New Spending

It's important to note that the President has already requested funding for many of the areas addressed in the Byrd package, only in conjunction with the \$40 billion emergency funding package already adopted by Congress. Specifically, the President's outline for allocating the second \$20 billion authorized in the Emergency Supplemental Appropriations Act [P.L. 107-38] already includes funding for preventing acts of bioterrorism, securing our nuclear and other energy facilities, and other federal law enforcement enhancements. The distinction is, whereas Senator Byrd would like to spend beyond the emergency funding already provided, the President has stated on several occasions that he already has sufficient funding to deal with the crisis. Most recently, the President issued the following letter to Speaker Hastert:

November 9, 2001

Dear Mr. Speaker:

In accordance with provisions of Public Law 107-38, the Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, FY 2001, today I have authorized transfers from the Emergency Response Fund totaling \$9.3 billion for emergency recovery and response and national security activities listed in the enclosed letter from the Director of the Office of Management and Budget. As provided in Public Law 107-38, \$1.7 billion will be made available immediately and \$7.5 billion of these funds will be made available 15 days from the date of this transmittal.

These funds are in addition to the \$9.7 billion that I previously authorized for transfer and will allow our Government to continue to address the consequences arising from the terrorist attacks of September 11, 2001.

With this action, I have transferred all but \$1 billion of the funds that were made available to me. **It is now time for the Congress to act without delay on the final \$20 billion in critical defense and domestic needs that I requested on October 17. My Administration does not intend to seek additional supplemental funding for either domestic or defense needs for the remainder of this session of Congress.**

The details of these actions are set forth in the enclosed letter from the Director of the Office of Management and Budget. I concur with his comments and observations.

Sincerely,

GEORGE W. BUSH

[emphasis added]

Grassley Substitute

A Republican proposal, not offered in Committee, was outlined by Senator Grassley and other members of the Senate Finance Committee on October 30th. The proposal would reduce federal revenues by \$75 billion in FY 2002 through a combination of business tax relief and subsidy checks to low-income workers. This alternative conforms to the President's request for an economic stimulus package that focuses on tax relief rather than new spending, and may be offered as an amendment to the Democrat bill. Specifically, the amendment provides the following:

- Business Tax Relief: Would enhance expensing of capital expenditures through 30-percent bonus depreciation, with sunset in three years and the repeal of the corporate alternative minimum tax on a prospective basis. *Cost: \$48 billion.*
- Individual Tax Relief: Would accelerate into 2002 all marginal rate cuts scheduled to go into effect in 2004 and 2006. *Cost: \$27 billion.*

In addition to the above, the Grassley substitute assumes the provision of payments to low- and moderate-income workers who filed tax returns in 2000 – \$300 for individuals, \$600 for married, \$500 for heads of household – and adoption of the President's "Displaced Workers Package," which includes extended unemployment benefits and SCHIP funding of displaced worker health insurance premiums.

BILL PROVISIONS

As reported by the Finance Committee, the bill would increase spending and reduce revenues by \$67 billion in FY 2002 and \$53 billion through 2011. Two items make the real cost of the Baucus proposal much more expensive than the \$67 billion price might suggest. First, Senator Daschle has indicated he intends to marry the Finance-reported bill with the Byrd “Homeland Defense” spending proposal. Those spending items are now reported to cost about \$15 billion (they were widely reported at \$20 billion earlier). Second, the Baucus unemployment provisions include \$19 billion in accelerated Reed Act payments. The CBO scores this early distribution as zero over 10 years, whereas the taxpayers will see a significant increase in their tax burdens, approximately \$14 billion over the next 10 years, according to the minority staff at the Senate Budget Committee.

Here is a summary of the provisions in the Baucus bill:

Business Investment Proposal

Bonus Depreciation: The bill increases the depreciation deduction for any capital asset purchased and placed in service by September 11, 2002. The bonus depreciation of 10 percent of the cost of the asset would be in addition to normal first-year depreciation.

Expensing: The bill increases from \$24,000 to \$35,000 the amount of capital assets that may be expensed in the year of purchase, and from \$200,000 to \$325,000 the point at which the ability to expense begins to phase out. The provision would apply for 2002.

Net Operating Loss Carrybacks: The proposal allows businesses to use losses incurred in 2001 to offset taxable income earned over the past five years.

Extenders: The proposal extends several tax provisions scheduled to expire, some as early as 2001. The provisions include incentives for businesses to hire low-income workers; relief for individuals from the alternative minimum tax; incentives for school construction; incentives for purchasing alternative-fuel vehicles; combined employment tax reporting; and incentives for energy production.

Cost: \$20 billion over one year.

Consumer Spending Proposal

Subsidy Checks: The bill provides for a check of \$300 per individual, \$500 per head of household, and \$600 per couple for those workers who did not receive a similar check this summer (excluding dependents). It also allows the 17 million taxpayers who received a check for less than the maximum amounts this summer to receive partial checks to bring the total amount up to the maximum.

Cost: \$14 billion over one year.

New York City and Distressed Areas Proposal

Expansion of Work Opportunity Tax Credit: Employers in the New York Recovery Zone will be eligible for a wage credit of up to \$4,800 per employee.

Tax-Exempt Private Activity Bonds: The bill authorizes the issuance of \$15 billion of tax-exempt private activity bonds.

Reinvestment of Insurance Proceeds: The bill encourages the reinvestment of insurance proceeds received for property damaged in New York City, to the extent those proceeds are reinvested in eligible property in New York City.

Mortgage Bond-Financed Loans: The proposal reauthorizes exceptions for qualified mortgage bond-financed loans to victims of presidentially declared disasters.

Private Activity Bonds for Indian Tribes: The bill authorizes issuance of up to \$10 million in tax-exempt private activity bonds for qualified Indian tribal governments.

Cost: \$1.8 billion.

Health Coverage Proposal

Premium Assistance for COBRA Coverage: Pays 75 percent of a qualified worker's continuing health insurance coverage through COBRA on a temporary basis. Individuals are eligible for assistance if they lose their job after September 11, 2001 and if they qualify for COBRA coverage.

Expanded Medicaid Coverage: Creates a temporary state option to provide health coverage to laid-off workers who are not eligible for COBRA. Individuals are eligible for assistance if they lose their job after September 11. States would have flexibility to set income limits for Medicaid assistance.

State Fiscal Relief Proposal: Provides fiscal relief to states by temporarily increasing the federal Medicaid matching rate.

Cost: \$12 billion.

Agriculture Relief

Emergency Assistance Programs: The bill reestablishes the Natural Disasters, Quality Loss, and Livestock Assistance Programs for Fiscal Year 2002. Up to \$12 million of the amounts made available under the program are for the American Indian Livestock Feed Program, and approximately \$200 million is provided for commodity purchases.

Rural Development: Provides \$3 billion to clear the backlog of pending rural development loan and grant applications.

Cost: \$3 billion.

Unemployment Insurance

Supplemental Benefits: The bill establishes an emergency unemployment compensation program for one year to provide extended benefits to displaced workers who have exhausted regular unemployment (i.e., after 26 weeks). Provide an additional 13 weeks in benefits to individuals who exhaust regular UI benefits after September 11, 2001.

Expanded UI Coverage: Extends UI eligibility to two categories of unemployed workers not currently receiving regular UI benefits, including those workers who would be eligible for benefits if their most recent earnings were counted (alternative base period), and those unemployed workers seeking part-time employment.

Increased UI Benefits: Increases UI benefits paid by at least 15 percent or \$25 per week, whichever is greater.

Administration Funding: Provide additional “Reed Act” distribution to states for administration of these benefits. Funding would come from federal UI accounts.

Cost: \$19 billion over 2 years.

Victims of Terrorism

The substitute includes a series of provisions targeted specifically at those areas impacted by the attacks of September 11th, including relief from income taxes, payroll taxes, and death taxes, as well as other tax and administrative provisions.

Cost: \$287 million.

Additional Provisions

Finally, the Baucus substitute includes a number of miscellaneous provisions, including \$9 billion in new Amtrak tax credit bonds, a broadband Internet tax credit, expansion of the aviation fuels excise tax, and changing the recovery period for “certain” wireless telecommunications equipment.

Cost: \$485 million.

ADMINISTRATION POSITION

At press time, no official Statement of Administration Policy was available. However, on November 8, Treasury Secretary Paul O’Neill made the following statement on congressional efforts and the need for a stimulus package:

“On September 17 the President talked about working with Congress to develop an economic stimulus package. In at least seven major speeches he has repeated this call for action, and on Friday, October 5th, the President laid out his four principles for an economic stimulus package that would stimulate demand, increase consumer confidence, and stimulate business investment. The President’s four principles:

- accelerate marginal income tax rate cuts
- provide tax relief for low- and moderate-income workers
- provide enhanced expensing of capital expenditures
- eliminate the corporate alternative minimum tax.

“I immediately began meeting with bipartisan, bicameral leaders of the tax-writing committees. The Ways and Means Committee proceeded to mark up and pass a bill out of committee on October 12th. On Wednesday, October 24th, the House passed H.R. 3090, the Economic Security and Recovery Act of 2001– legislation which meets the President’s principles.

“It is unfortunate that Senate Finance Committee Chairman Max Baucus has decided to move a partisan product through his committee. The Baucus proposal is heavy on new spending that will have little, if any, stimulative effect on the economy. Moreover, some of its provisions would have an adverse effect on job creation. This is where we are today with the economy:

- Real GDP declined at a 0.4 percent annual rate in the third quarter – the first decline since the beginning of 1993 and the largest since a 2.0 percent drop in the first quarter of 1991, when the economy was in recession.
- The unemployment rate jumped from 4.9 percent in September to 5.4 percent in October, the highest since December 1996, as the full effects of the terrorist attacks hit the labor markets. (September results were collected too early in the month to have been affected.)
- The October unemployment rate is 1.5 percentage points higher than a year earlier, representing the addition of 2.2 million workers to the unemployment rolls during the past year.
- 415,000 jobs were slashed from nonfarm payrolls in October, the biggest decline since 1980. A total of nearly 900,000 jobs have been lost since a peak was reached last March.
- Consumer confidence tumbled 11.5 points in October on top of a 17.0 point fall in September to a 7-1/2 year low, according to the Conference Board. The Michigan consumer sentiment index is at an eight-year low.
- In response to their pessimistic mood and uncertainty about the future, consumers stayed away from shopping centers and retail sales fell by 2.4 percent in September, the largest one-month drop since 1987.
- Business investment plunged at an 11.9 percent annual rate in the third quarter after having fallen at a 14.6 percent pace in the second quarter.

“The President has been clear in his call for quick action on an economic stimulus package to restore confidence and create jobs. It’s time to quickly move past this disappointment and get a bipartisan stimulus bill the President can support.”

COST

The Joint Committee on Taxation estimates that the bill as reported by the Finance Committee would decrease revenues (and increase outlays) by \$67 billion in FY2002 (this does not include the Byrd spending proposal which was not a part of the bill as reported) and by \$52.5 billion over 10 years. The largest one-year cost components are: \$14.2 billion for the rebate to taxpayers who were not subject to

income tax in 2000; \$14.0 billion for a special depreciation allowance for businesses; \$14.3 billion for the unemployment insurance provisions (\$19 billion over two years); and \$12.3 billion for health insurance coverage for displaced workers and increases in the Medicaid federal match.

POSSIBLE AMENDMENTS

Grassley. A substitute, which would reduce federal revenues by \$75 billion in FY 2002 through a combination of business tax relief and subsidy checks to low-income workers, and which conforms to the President's request for an economic stimulus package that focuses on tax relief rather than new spending. [For details, see p. 5 of this Notice.]

Breaux. Substitute.

Gramm. Permanent capital gains reduction.

Craig. Energy amendment (similar to H.R. 4 as passed by the House).

Domenici. One-month payroll tax holiday.

Bond. Small business tax provisions.

Allen. Assistance related to National Airport.

Kyl. Travel voucher.

Byrd. Homeland Security amendment. [See details under Background, p. 4.]

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